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FISCAL IMPACT STATEMENT

LS 6344 | **NOTE PREPARED:** Jan 26, 2006
BILL NUMBER: HB 1001 | **BILL AMENDED:** Jan 25, 2006

SUBJECT: Local Government.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) *Property Tax Termination:* This bill terminates the authority of a taxing unit to impose a property tax after 2008 (except for property taxes pledged to repay obligations entered into before April 1, 2006).

Property Tax Amnesty: This bill permits a county treasurer to establish a property tax amnesty period for the payment of delinquent property taxes without interest or penalties.

Trustee Assessors: This bill transfers to the county assessor the property tax assessment duties performed by township trustee assessors.

Residential Property Tax Rates: The bill limits to 3% the annual increase in property tax rates on residential property other than rates for debt service, lease rentals, or a school corporation general fund.

Maximum Levies: This bill bases a civil taxing unit's maximum property tax levy on the greater of the unit's maximum levy or actual levy for the previous year.

Taxpayer Notification: The bill requires a notice to be mailed to each taxpayer in August that explains to the taxpayer the effect of the proposed levies, rates, and budgets on the taxpayer's tax bill and indicates when a public hearing will be held on the proposed levies, rates, and budgets.

Child Welfare Credit: The bill provides an additional child welfare relief credit in 2006 against property tax liability imposed on a homestead.

Child Welfare: Beginning in 2007, this bill:

(1) Consolidates the county family and children's fund, children's psychiatric residential treatment services fund, the county medical assistance to wards fund, and the children with special health care needs county fund into a new child welfare fund;
(2) Limits the levy that may be imposed for the child welfare fund;
(3) Requires money in the child welfare fund to be deposited in the state child welfare fund;
(4) Requires state caseworkers to make recommendations to a juvenile court concerning appropriate child welfare services; and
(5) Transfers responsibility for paying child welfare expenses to the state.

Property Tax Deferrals: The bill allows a senior citizen, a blind or disabled citizen, or a person whose property taxes have increased by at least 75% to defer certain property taxes.

Referendums on Debt Issues: This bill requires a lease rental or bond issue to be approved at a local referendum if: (1) the cost of the project is at least $50 M or an amount equal to at least 2% of the assessed value in the political subdivision; and (2) the specified number of taxpayers request the referendum.

Credit for Excessive Residential Property Tax: The bill grants a taxpayer a credit for excessive homestead property tax liability that exceeds 2% of the taxpayer's assessed valuation. With certain exceptions, it eliminates the optional county credit program that applied to all residential property.

Certified Assessed Value: This bill allows the county auditor to reduce a taxing unit's certified assessed value (AV) to offset appeals.

Dog Tax: The bill terminates the dog tax..

The bill makes other related changes.

Effective Date: Upon passage; July 1, 2006; January 1, 2007; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: (Revised) *Property Tax Amnesty:* The DLGF would be required to adopt emergency rules to implement the program. The DLGF would also be required to assess the impact of the program and make a report to the Legislative Council. This provision could increase administrative expense for the DLGF.

Trustee Assessors: The Department of Local Government Finance (DLGF) provides training to county and township assessors. Assigning the duty of assessing property to the county assessor instead of the trustee township assessing official will reduce administrative expenses associated with the provision of training to assessors. The DLGF will still have to provide training to county assessors and elected township assessors. However, the potential number of trainees would be reduced from 1,100 to 269.

Trustee Assessors - Background Information: Assessors are currently required to maintain either Level I or Level II certification. The DLGF certifies the assessors. Assessing officials must earn 30 hours of education within a 4-year period to be certified as a Level I assessor. Officials must complete 45 hours of education within a 4-year period to be certified as a Level II assessor. The DLGF offers training and certification at no cost to the assessor. Education may also be earned at training offered by approved entities. Participants in the training offered by the DLGF are responsible for travel and associated costs which may be paid by the sponsoring governmental unit.

The next reassessment will begin in 2009 and must be completed by March 1, 2011. This reassessment will be the basis for taxes payable in 2012.

As of January 2005, of the 1,008 townships in the state, 177 had elected assessors and 831 had trustee-assessors. With respect to certification levels, 11 county assessors had obtained a Level I and 71 had obtained a Level II certification. For elected township assessors, 16 had attained Level I and 107 had attained Level II. For township trustee-assessors, 68 had attained Level I and 63 had attained Level II.

Child Welfare Credit: Under this bill, the state would pay a child welfare credit to homeowners in CY 2006. The credit would equal an additional 12% of homestead credit for all homesteads, statewide. The estimated cost of the credit is $147.8 M in CY 2006, or $49.4 M in FY 2006 and $98.4 M in FY 2007.

The bill would allow county auditors to apply the entire credit to the November 2006 tax installment if payment of half of the credit against the May 2006 installment would delay tax bill mailings. Depending on the timing of the credit payments locally, all of the credit could be paid by the state in FY 2007.

The bill provides for a distribution from the Property Tax Replacement Fund (PTRF) to pay for the credit. This distribution would not be subject to the current PTRF appropriation limits that apply to the existing homestead credit and PTRC. The PTRF is supplemented by the state General Fund, so this credit would ultimately be paid from the General Fund.

Residential Property Tax Rates: Beginning in CY 2007, if residential tax payments are reduced because of the limit on tax rates for residential property then, subject to appropriation, state expenditures for PTRC and homestead credits would also be reduced.

Maximum Levies: Beginning in CY 2007, if the provision to allow the "banking" of unused maximum levies increases or reduces levy amounts in a year then, subject to appropriation, state expenditures for PTRC and homestead credits would also be increased or reduced.

Child Welfare: The state would be responsible for about $111 M in child welfare expenses in CY 2007 and $132 M in CY 2008. However, state expenditures for PTRC and homestead credit would also be reduced by an estimated $26 M in CY 2007 and $31 M in CY 2008. By fiscal year, the state's net additional cost under this provision is estimated at $46.8 M in FY 2007 (partial year) and $93.7 M in FY 2008.

Child Welfare - State Child Welfare Fund: The bill establishes the State Child Welfare Fund (Fund). The Department of Child Services (DCS) is named as the responsible entity for administering the Fund.

The Fund consists of the following: money transferred from each of the county child welfare funds, including amounts paid to the state by a county for costs of services ordered by a juvenile court; fees or costs paid by a parent or guardian under a support or reimbursement order; contributions from individuals, corporations, foundations, or others; appropriations made by the General Assembly; funds received from the federal government and deposited in the Fund; and any other money required by the law to be deposited in the Fund.

The DCS is required to pay the following from the Fund: (1) expenses and obligations for payment of child services for children adjudicated to be: (a) children in need of services (CHINS), or (b) delinquent children; and other related services; (2) expenses and obligations incurred in the payment of children's psychiatric residential treatment services; (3) medical care for wards of the DCS; (4) services to children with special health care needs; (5) expenditures for services or a procurement contract; (6) any expense of the type that was payable before January 1, 2007, from: (a) a county family and children's fund, (b) a county children's psychiatric residential treatment services fund; (c) the Children with Special Health Care Needs State Fund; (d) the State Medical Assistance to Wards Fund; and (7) any other expense or obligation that is required to be paid from the Fund by law.

Money in the fund does not revert to the state General Fund at the end of a state fiscal year.

Child Welfare - Departing from a Dispositional Plan: Under current law, a predispositional report must be prepared for a CHINS. As proposed, if the predispositional report recommends any placement or other service that the DCS is obligated to pay, the recommendation must be approved by the DCS. In addition, if the juvenile court issues a dispositional plan that departs from the "appropriate dispositional plan," the juvenile court would be required to include written findings describing: reasons why the juvenile court departed from the "appropriate dispositional plan," and the additional expense for child services, if any, that the court's dispositional decree would incur as compared to the cost of the "appropriate dispositional plan." This provision of the bill would increase workload for the courts. Actual increases would be dependent on the number of dispositional plans for which the court departs from and the magnitude of each report completed.

Child Welfare - Responsibility of Payment for Services: The DCS is responsible for paying for the cost of services ordered by the juvenile court for any child or the child's parent, guardian, or custodian, other than secure detention or probation services, if the services are appropriate services set forth in an "appropriate dispositional plan" submitted to the juvenile court by a DCS caseworker.

The DCS is also required to pay for other services ordered by the juvenile court that are not designated as appropriate services in a dispositional plan. Those services, however, would be subsequently charged back to the county. As proposed, the county would be required to reimburse the DCS from the county child welfare fund for the cost of services charged back to the county.

Under current law, the county is responsible for paying for the cost of any services ordered by the juvenile court for a child or the child's parent, guardian, or custodian, other than secure detention, and for returning a child under the interstate compact for juveniles. Payment of those services is made from the county family and children's fund.

Child Welfare - Presdispositional Reports for CHINS and Delinquent Offenders: Under current law, a probation officer or caseworker is responsible for preparing various reports pertaining to a CHINS or a delinquent offender who has also been identified as a CHINS. The reports include: predispositional, financial, progress, case review progress, permanency hearing, and modification.

As proposed, probation officers would no longer be responsible for the completion of reports. Caseworkers are currently responsible for preparing reports for CHINS. Probation is administered at the county level, with each county administering it differently. As a result, determination of who completes the aforementioned reports varies by county as well. The DCS, however, reports that in the majority of counties, caseworkers are responsible for the completion of reports. This provision of the bill would reduce workload for probation officers in counties in which probation officers complete the reports.

During CY 2004, there were 2,954 juveniles on probation who were also identified as CHINS.

Child Welfare - Modification of Dispositional Decree Reports: The bill requires a modification of a dispositional decree report be prepared in every case in which a modification is requested. Under current law, a report is prepared if the state or any person other than the child or the child's parent, guardian, guardian ad litem, or custodian, requests the modification. This would present an increase in workload for caseworkers. However, actual increases are indeterminable and are dependent on the number of modifications requested by any of the aforementioned persons.

Child Welfare - Parental Reimbursement through Child Support: The bill requires a child's parent or guardian of a child's estate to pay for or reimburse the DCS for the cost of services provided to the child or the child's parent or guardian. Currently, the aforementioned persons are required to reimburse the county for services provided.

Under current law, if there is not an existing support order, the court is required to order a child's parent or guardian to pay child support to the county office. The order is based upon Child Support Guidelines adopted by the Indiana Supreme Court. However, the court is not required to make the order if the court finds that entry of an order would be unjust or inappropriate considering the best interests of the child and other necessary obligations of the family, or the county does not make foster care maintenance payments for the child. As proposed, child support payments would be made to the DCS.

The bill requires an existing support order be paid to the DCS, as opposed to the county office, when a child is placed in an out-of-home placement.

The bill also requires that child support payments be made through the clerk of the circuit court as trustee for remittance to the DCS. Currently, the payments are made through the clerk for remittance to the county office.

As proposed, money paid by a parent or guardian for reimbursement or support would be deposited in the county child welfare fund if the money is received to pay a county obligation or in the state Child Welfare Fund if the money is received to pay an obligation to the state fund.

Child Welfare - Procurement of Services: The bill requires the DCS to establish a program to procure services for: providing child protection services; regulating and licensing child caring institutions, foster family homes, group homes, and child placing agencies; providing and administering child abuse and neglect prevention services; administering the state's Title IV-D plan; providing and administering child services and children's psychiatric residential treatment services; administering family preservation services; administering foster care services; and administering adoption services. Under current law, the DCS may establish a program to procure the aforementioned services. The bill removes current statutory language which makes a county responsible for reimbursing the DCS for services paid for by the DCS under a procurement agreement.

Child Welfare - Family and Children Trust Clearance Fund: Under current law, the county office may receive and administer a gift, devise, or bequest of personal property, which are subsequently kept in the County Family and Children Trust Clearance Fund (County Fund). Money in the County Fund is used for the: (1) care of children whose adoption is contemplated, and (2) improvement of adoption services provided by the county departments. The county office must receive the approval of the judge or the court of the county having probate jurisdiction before expending any money from the County Fund.

As proposed, the DCS would become the entity able to receive and administer a gift, devise, or bequest of personal property. The bill eliminates the County Fund and establishes the State Family and Children Trust Clearance Fund (State Fund). The DCS is responsible for administering the State Fund. Money in the State Fund does not revert to the state General Fund at the end of the state fiscal year. Any gift, devise, or bequest of personal property given to the DCS would be kept in the State Fund. In contrast to current law, the state would not need the approval of a judge to expend money; uses of the money remains the same.

Child Welfare - Out-of-State Placements: Under current law, if a child is placed by a court order in an out-of-state institution or other facility and provided all educational programs and services by a public school corporation in the state where the child is placed, the county Office of Family and Children is responsible for paying the transfer tuition from the County Family and Children's Fund. As proposed, the DCS would become the responsible party for payment of the transfer tuition. Payment would be made from the State Family and Children's Fund.

Child Welfare - Institutional Space: If a child is placed in an institution or facility in Indiana under court order, the entity currently charges the county office of the student's legal settlement for the use of the space that is used to provide educational services to the child. As proposed, the DCS would be responsible for payment.

Child Welfare - Adoption of Temporary Rules: The bill allows the DCS to adopt temporary rules to implement certain provisions of the bill. The DCS should be able to do so within its existing level of resources.

Child Welfare - Transfer of Dollars to the State Child Welfare Fund: Any balance remaining in the Children with Special Health Care Needs State Fund and the State Medical Assistance to Wards Fund on December 31, 2006, is transferred to the State Child Welfare Fund.

Child Welfare - Transfer of Funds to the County Child Welfare Fund: Any balance remaining in a county psychiatric residential treatment services fund, a county medical assistance to wards fund, or a children with special health care needs county fund on December 31, 2006, is transferred to the county's child welfare fund.

Dog Tax: The bill repeals provisions that provide for the Dog Tax. The bill also provides that if any money remains in the State Dog Account of the state General Fund on December 31, 2006, the Auditor of State must on January 1, 2007, abolish the account and distribute 50% of the money to Purdue University for the School of Veterinary Science and Medicine and 50% to counties that paid surplus money into the account. As of January 13, 2006, the State Dog Fund had a balance of $48,864.

(Revised) *Property Tax Deferrals- Senior, Blind, or Disabled:* Beginning with property taxes paid in 2007, this provision would allow a homeowner who is at least 65 years of age, blind, or disabled (or, subject to certain conditions, who is the surviving spouse of such an individual) to defer part of their property tax increase each year, subject to limitations.

Overall, at least initially, state expenses would increase under this bill. If deferral repayments are ever greater than deferrals in a future year, then revenues would exceed expenditures in those years. Deferrals could be *as much as* $4.7 M in CY 2007.

The bill would set a base tax amount for all qualified homeowners and would allow deferrals for taxes due in the current year that exceed the base tax amount. If a currently qualified taxpayer would have met the qualification requirements on March 1, 2005, then the base tax amount in a year would equal (1) the 2006 net tax liability plus (2) for each year after 2006, any tax increase, up to 10%, from the previous year. If the taxpayer would not have met the qualification requirements on March 1, 2005, then the base year amount would equal the tax in the year in which the taxpayer first qualifies plus any tax increase, up to 10%, in following years.

The state would pay counties the amount of property taxes deferred during each year. Taxpayers would repay the amount deferred with interest to the county within 30 days after (1) the property is sold or (2) the total of all mortgages and liens exceeds the value of the property. Interest starts accruing five years after that year's deferral and accrues interest at the rate set for delinquent state taxes (currently 4%). Repayments would be transferred from the county to the state.

When the property is sold, the state would recover the amount the state had paid in deferrals plus interest after 5 years. The short-term impact could be significant when significant increases in property taxes occur. The long-term impact would be (1) the loss of interest earnings on the money used for the first five years of deferral and (2) any difference between the interest rate charged after five years and the prevailing interest rate earned by the state in general.

The fiscal impact of this provision would depend on the number of homeowners who are 65 or older, blind, or disabled and had more than a 25% increase in property taxes in CY 2003 or more than 10% in a year after CY 2003. Deferrals could be reduced by other provisions of this bill in areas where the 3% residential tax rate increase limit affects the tax rate.

Property Tax Deferrals- Senior, Blind, or Disabled - Methodology: The total amount of taxes that could be deferred in a year was estimated by examining the 2002 and 2003 parcel-level property tax records for individuals who claimed the elderly, blind, or disabled property tax deductions. The taxpayers who are able to claim the elderly, blind, or disabled property tax deductions are a subset of the total taxpayer group who would be eligible to defer taxes. This is because there are income and assessed value limits that prohibit many elderly, blind, or disabled taxpayers from claiming the property tax deduction. Estimates of future taxes were made using countywide and statewide estimates of tax rate changes and net tax shifts due to the implementation of annual adjustments.

The results of the analysis on the property tax records were applied to the estimated net property tax paid by the total taxpayer group that was calculated from the income tax data. *Because of the difference between the taxpayer groups and because not every eligible taxpayer would ask for deferral, the actual deferrals would most likely be lower than the above estimate.*

Property Tax Deferrals- Senior, Blind, or Disabled - Background: According to income tax return data for tax year 2002, approximately 308,000 taxpayers took an elderly or blind income tax deduction. These taxpayers took an income tax deduction for property taxes paid on homesteads in the amount of $300 M.

According to income tax return data for tax year 2003, approximately 305,500 homeowners took an elderly or blind income tax deduction. Based on these taxpayers' reported income tax deductions for property taxes paid on homesteads and Lake County homeowner income tax credits, the total property tax paid by elderly, blind, or disabled homeowners in 2003 is estimated at $306 M.

From that data, total property taxes were estimated for this group of taxpayers in the amount of $325 M in CY 2004, $340 M in CY 2005, $348 M in CY 2006, and $387 M in CY 2007.

Explanation of State Revenues: *Trustee Assessors:* Changing the personnel who determine assessments could result in a change in overall assessed value (AV). The state levies a small tax rate for State Fair and State Forestry. Any change in the AV base will change the property tax revenue for these two funds.

Explanation of Local Expenditures: (Revised) *Trustee Assessors:* The bill transfers to the county assessor the property tax assessment duties performed by township trustee assessors. The county assessor is recused from any action the county property tax assessment board of appeals takes with respect to an assessment determination by the county assessor. With respect to the correction of errors on tax duplicates in a county in which there are no township assessors, if the tax is not based on an assessment determined by the DLGF, the county auditor must correct the error in certain circumstances only if the correction is approved by the county auditor and the county assessor. As of January 2005, there were 831 township trustees. Of these township trustees, 63 had attained Level II certification. The bill provides that a township trustee who has attained a Level II is able to contract with a township assessor or county assessor to perform assessing functions. It also allows the township legislative body to maintain the township trustee's annual salary increase that was based on the trustee's certification as a Level II assessor-appraiser. The bill also allows a county assessor to establish standards and procedures for the conduct of assessment and reassessment activities in the county.

Overall, the bill would increase expenses incurred by counties that would be required to take over assessing responsibilities from townships with township trustees. Conversely, expenses for townships would decrease. The local impact would depend on current township expenses for assessing relative to expenses that counties will incur in order to assess property in townships.

There are currently 1,008 townships in the state. Counties would take over the assessing responsibilities in 831 of these townships that do not have elected township assessors. Additional expenses would depend on the number of assessors that a county might hire and the salaries paid. If counties added 80 assessors, one assessor for about every 10 townships, and paid salary and benefits of approximately $30,000, the increase in expenses would be about $2.4 M annually. There could be a corresponding reduction in township assessing expenses. It is assumed that the budgets would be adjusted accordingly.

Expenses of reassessment are paid from the county reassessment fund.

The township trustee assessor would no longer need to serve on the county land valuation commission. Additionally, in a county in which there are no township assessors, the county assessor may abolish the county land valuation commission. These provisions could reduce costs for the county. The bill could also reduce expenses associated with correspondences among the county assessor, the trustee assessor, and the DLGF.

Consolidated Personal Property Tax Returns. Currently, a taxpayer must file a personal property tax return by taxing district with each township or the taxpayer has the option to file one consolidated return with the county assessor. Under the proposal, the taxpayer is required to file only one personal property tax return in the county with the county assessor. This provision should reduce local administrative expenses because it will likely result in fewer returns filed.

Taxpayer Notification: Currently, a political subdivision must publish notice of tax levies, tax rates, and budget. Under the proposal, the county auditor must mail to each taxpayer a statement containing certain information pertaining to property taxes for the following year including: the taxpayer's AV, deductions, and credits; the estimated taxes that will be due from the taxpayer for each taxing unit; the corresponding tax liabilities for the current year; information on public hearings on the levies, tax rates, and budgets, and the opportunity to appeal.

This provision will increase expenses for the county. The impact will depend on current practices and the extent of the information that counties currently distribute to taxpayers. There could be as many as 3.5 million taxpayers that would need to be notified by mail. If an additional mailing were required for each taxpayer at a cost of $0.39 per taxpayer, costs could equal as much as $1.4 M. If printing costs equaled $0.07 per page per taxpayer, counties would incur an additional $245,000 in mailing and expenses. Counties would also have additional personnel expenses for printing and handling the notices.

County auditors would also have to calculate estimated tax rates and estimated taxes for each taxpayer. Counties would incur additional computer programming costs to produce these estimates.

Child Welfare: County child welfare expenditures would be reduced each year beginning in CY 2007. The state will pay most expenses that are above the base expenditure amount described in *Explanation of Local Revenues*.

Child Welfare / Residential Property Tax Rates: Counties that have adopted a county-funded homestead credit in addition to the state homestead credit would pay slightly less for these local homestead credits under these provisions. Under the bill, beginning in CY 2007, the growth in the net levy on which COIT homestead credits are based would be reduced by net levy savings for the children's welfare fund. The net levy could also be reduced by the residential rate cap also contained in this bill. COIT proceeds that are not used for homestead credits are distributed to civil units as certified shares.

In a county that has adopted a CEDIT rate to pay for homestead credits to offset shifts from eliminating property tax on inventory, the necessary CEDIT tax rate could be slightly lower because the net shift would be slightly lower.

The cost of other credits that are based on the net tax billing that may be available in some counties would also be slightly reduced as a result of this proposal.

Dog Tax: Under existing law, township assessors must take a census of the dogs in the township and collect a Dog Tax. All money derived by the dog tax must be used for the payment of damages sustained by owners of certain stock, fowl, or game killed, maimed, or damaged by dogs. Townships forward to the county at the end of a year any funds in a township dog fund exceeding $300 over and above orders drawn on the fund.

Funds transferred to counties are to be deposited in the county dog fund. Money in the county dog fund is distributed among the townships or to humane societies. If the funds are insufficient to pay for damaged stock, fowl, and game, the losses are paid from the State Dog Account. Surplus remaining in the county dog fund is paid to the Auditor of State and placed in a separate account of the state General Fund known as the State Dog Account. All money in excess of $50,000 remaining in the State Dog Account after annual distributions are distributed to Purdue University for the School of Veterinary Science and Medicine and to the general fund of each county. As of January 13, 2006, the State Dog Account had a balance of $48,864.

The bill repeals IC 15-5-9, which governs the responsibility of administering the Dog Tax and Dog Fund, including the payment of claims made against the fund for dog-related damages. This provision is expected to cause a minimal reduction in the workload of township officials.

(Revised) *Referendums on Debt Issues:* If 500 or 5% of the owners of real property sign a petition requesting a referendum on a lease rental or bond issue of more than 2% of AV or $50 M, then the approval of the projects would be on the ballot for the next primary or general election. There should be no additional election cost if the referendum is held during a primary or general election.

The taxing unit may ask for a special election to vote on the referendum. The taxing unit would have to reimburse the county for the cost of the special election.

Explanation of Local Revenues: (Revised) *Property Tax Termination:* Beginning with taxes payable in 2009, only levies needed to repay obligations entered into before April 1, 2006, would be permitted. No other property tax levies or rates could be imposed.

The total gross property tax levy in 2005 was $7,421 M. Total PTRC and homestead credit is estimated at $1,970 M. Debt service levies accounted for $1,212 M of the $7,421 M in total gross levies. The debt service levies would continue to be imposed. In 2009, the gross levy is estimated at $8,959 M and the net levy is estimated at $6,646 M. Assuming (1) a constant debt service levy of $1,212 M, and (2) continued payment of PTRC and Homestead credit amounts, this bill would reduce the net levy by about $5,434 M in 2009. The $5,434 net levy reduction would be a revenue reduction for local taxing units and school corporations.

Trustee Assessors and Taxpayer Notifications: Changing the personnel who determine local assessments could result in a change in AV. The bill also allows an AV appeal for the assessment date in the following year after the date of the mailing and before May 11 of the following year. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the difference in AV that resulted from the above changes.

Transfer of Property. The county auditor may collect taxes on property that has been transferred, even if the auditor has already transferred the property in the property transfer book before all taxes are satisfied. This provision may result in additional taxes being collected. The impact is indeterminable.

Child Welfare Credit: Homestead net taxes would be reduced in CY 2006 by the amount of the credit. Total local revenues would not be affected by this provision.

Residential Property Tax Rates: Beginning with property taxes paid in CY 2007, this provision would limit the growth in each taxing unit's property tax rate to 3% per year as that rate applies to residential property. Debt service and school general fund tax rates would not be limited by this provision. Property taxes not paid by residential property owners because of the rate limit would be a direct loss of revenue for the affected taxing units.

For most funds, the tax rate is a function of levy and assessed value (rate = levy / AV). The exception is rate-controlled funds such as cumulative funds and the school capital projects fund. The rates for these funds do not change very often. Maximum levies (operating funds) grow at the six-year average change in Indiana nonfarm personal income. That growth amount is 3.9% for 2006 and is estimated at around 4.0% for 2007. Assessed value growth in recent years is difficult to gauge since there have been changes each year since 2002 that have affected net assessed value.

From 1997 to 2002, total gross tax rates grew at an average of 1.5% per year. Total levies grew at 4.85% but assessed value grew at 3.3%. (Through 2003, maximum levies grew by a minimum of 5% per year.) The annual growth in tax rates after 2002 is not indicative of future growth because of the changes in levy limitations, assessment methods, deductions, and exemptions.

However, annual adjustments are scheduled to begin with taxes due in CY 2007. The statewide average increase in total AV due to the adjustments is estimated at 22% in CY 2007 (catch-up year plus equalization) and around 3% per year beginning in CY 2008. These estimates do not include AV growth due to physical changes or investment in real property or new investment in personal property.

In addition to the factors affecting the tax rate under current law, the change in the child welfare levy under this bill would reduce the growth in county unit tax rates. Since this levy would be essentially frozen, with some exceptions, the child welfare tax rate should actually decline as AV grows.

Taking into consideration the expected increases in assessed value each year and the limits on levy growth, it is estimated that this provision would not affect many taxing units in a given year. However, if there are taxing units in areas that have little or no investment or change in real property market value, then those units would suffer a loss of revenue under this provision.

Certified Assessed Value: Prior to 2004, it was common practice for the county auditor to keep the AV of certain assessments under appeal separated from other property on the tax duplicate. This AV was not considered in the county auditor's certification of AV for use in fixing tax rates. SEA 1 - 2004 removed county auditors' authority to reduce the certified AV to compensate for appeals.

Beginning with property taxes paid in CY 2007, this bill would allow county auditors to reduce a taxing unit's certified AV only to adjust for reduced tax collections that will result from successful assessment appeals. The reduction would be limited to the lesser of (1) 2% of the unit's AV or (2) the total amount of reductions for successful appeals applied in the previous year.

When assessed value is removed from the AV certification, the tax rate is increased in order to generate the desired certified levy. When tax bills are calculated, the tax rate is applied to all AV, including the amount removed from certification. This generally results in a larger charged levy (or abstract levy). Some of this abstract levy may not be collected due to successful appeals. If the amount of AV removed from certification is too low, then the tax rate is set too low and the unit suffers a revenue shortfall. However, if too much AV is removed, then the tax rate is set too high, generating too much property tax revenue. Taxing units may not spend more than 100% of their certified levies. Collections over 100% of certified levy must be deposited into the Levy Excess Fund. Money in this fund may only be used to pay tax refunds and to reduce future tax levies.

Maximum Levies: Prior to 2004, civil taxing unit maximum permissible levies were calculated each year by multiplying the previous year's maximum levy by the six-year average increase in Indiana nonfarm personal income (limited to 6% with some exceptions). A taxing unit that did not use all of its maximum levy in a year never lost the unused amount from its base. Under SEA 1 - 2004, the calculation for the maximum levies was changed so that the new maximum levy is equal to the previous year's <u>actual</u> levy rather than the <u>maximum</u> levy. This change removed the previously unused portion of maximum levies from the base and eliminated any "banking" of unused levy authority in the future.

This bill would restore the old maximum levy calculation and the "banking" of unused levy authority beginning with taxes paid in 2007. Maximum levy authority that was lost in a year prior to 2007 would <u>not</u> be restored by this provision. This provision would only affect maximum levies going forward.

This provision could have one of two effects, depending on the taxing unit. First, some units probably levy their maximum amount each year even if it is not needed so that the unit does not lose that levy authority. For these units, this provision could result in lower levies in years when the unit does not need the levy. Second, some units levy only what they need to levy, regardless of the fact that unused levy authority is lost. For these units, this provision could result in higher levies in years when the unit decides to take advantage of their unused authority.

In all cases, if a unit elects to use previously unused levy authority in a specific year, then taxpayers would be faced with a larger than normal increase in the tax rate in that year. If the unit has unused levy authority, the unit's tax rate growth might have been nominal up until the year that the unit uses the banked levy amount.

Maximum Levies - Background: Not including welfare funds, the unused portion of maximum levies totaled \$354 M in CY 2002 from 1,431 units, school transportation, and township fire funds. The CY 2003 unused maximum levy was \$251 M from 1,455 units and funds. In CY 2004, the first year of the new maximum levy calculation, the unused maximum levy was \$77 M from 826 units and funds. In CY 2005, the unused maximum levy was \$87 M from 505 units and funds. In CY 2004 and CY 2005, this unused levy authority was lost. (The unit counts only include units where the unused maximum levy was at least 1% of the total maximum levy. The unused maximum levy amounts include all units and funds except welfare.)

Child Welfare: Under this proposal, the property tax levies for the county family and children, county children's psychiatric residential treatment services, county medical assistance to wards, and county children with special health care needs funds would be combined into the new county child welfare fund levy.

Beginning in CY 2007, the levy would equal the sum of:

(A) For the county family and children fund, the average net expenses for 2002, 2003, 2004, and 2005, with each year adjusted for GDP growth to 2006; plus
(B) For the county psychiatric residential treatment fund, the average net expenses for 2004 and 2005, with each year adjusted for GDP growth to 2006; plus
(C) For the county medical assistance to wards fund, the 2006 gross levy; plus
(D) For the county children with special health care needs fund, the 2006 gross levy; plus
(E) The amount, if any, by which the cost of services ordered by a juvenile court judge exceeds the cost of treatment recommended by a caseworker in a predispositional or modified report.
(Net expenses equal the amounts paid from the fund for services or administration minus Fund income other than property tax.)

The statewide total <u>gross</u> child welfare levy was \$303.6 M in CY 2005 and is projected at \$367.9 M in CY 2006, \$430.5 M in CY 2007, and \$451.5 M in CY 2008 under current law.

The statewide total <u>net</u> child welfare levy was \$264.6 M in CY 2005 and is projected at \$313.0 M in CY 2006, \$365.7 M in CY 2007, and \$374.8 M in CY 2008 under current law.

With the assumption that the cost of all of the treatment ordered by judges would not exceed the caseworker-recommended treatment, the total county levy for 2007 and future years is estimated at \$319.5 M. The local levy could be higher depending on judges' actions.

Dog Tax: Counties would no longer receive dog tax revenue from the townships. However, counties that forwarded surplus dog tax money to the state would receive 50% of the money remaining in the State Dog Tax

Fund on January 1, 2007. The amount that the counties would receive would be in proportion to what each county forwarded to the state relative to all other counties. As of January 13, 2006, the state account contained $48,864. If the January 1, 2007, balance is comparable, about $25,000 would be distributed among the eligible counties. Under the proposal, counties would be required to distribute this revenue in equal shares to all the townships in the county. If all 1,008 townships received an equal portion, each township would receive about $25. The township must deposit the money in the township dog fund which is abolished. The money must be distributed to pay for claims, fees and charges, humane societies, and the township general fund.

Additionally, for each individual dog tag or kennel license issued, the township assessor (or trustee who collects the fee) retains an administrative fee of $0.50. Administrative fees collected by the assessor are deposited in the county general fund, and administrative fees collected by the trustee are be deposited in the township general fund. Repealing the dog tax will decrease revenue in the township funds.

Property Tax Deferrals- Senior, Blind, or Disabled: The bill could increase the county property tax administrative costs. The county would have to keep track of the deferrals on each piece of property. It is unknown what the cost of tracking the deferrals might be.

(Revised) *Property Tax Deferrals- Reassessment Increase:* This provision would permit county fiscal bodies to adopt a property tax deferral program for the owners of homesteads whose property tax bills rise by at least 75% after a general reassessment or annual adjustment. The next general reassessment is scheduled to take effect with taxes paid in 2012. Annual adjustments are scheduled to be implemented beginning with taxes payable in 2007. Homeowners who qualify would be entitled to defer a portion of the tax increase, without interest or penalty, according to a schedule. The percentage of tax increase that may be deferred and the duration of the deferral depend on the percentage increase in the tax bill as summarized below.

Deferral Amount As a % of Tax Increase			
Tax Bill Increase	**Year 1**	**Year 2**	**Year 3**
75% – 149%	75%		
150% – 224%	75%	50%	
225% or more	75%	50%	25%

Taxpayers who defer a portion of their tax liability would have to pay the deferral amount over three years in six installments (two installments per year). Payments would begin three years after the first year in which the reassessment or adjustments took effect.

The deferrals would reduce the tax collections that are distributed to local civil taxing units and school corporations. Repayments of the deferrals would increase collections.

The general reassessment that took effect with taxes paid in 2003 was unique in that it changed the methods used in determining the assessed value of real property and resulted in some large increases and reductions in tax liabilities for some homeowners. Assuming that there will not be any further major changes in assessment methods and given the fact that annual adjustments to assessments will commence with taxes paid in 2007, it is unlikely that a future general reassessment would cause this magnitude of change again.

The first year of annual adjustments (2006 pay 2007) could produce some moderate increases in tax bills because of the catch-up between the sales year used in the 2002 pay 2003 reassessment and the sales year used in the 2006 pay 2007 annual adjustments. However, it is unlikely that many, if any, homesteads would see a 75% increase in net taxes in 2007.

This provision, therefore, should have minimal impact in the future.

Credit for Excessive Residential Property Tax - 2006: Currently, a county that wishes to provide local property tax credits for residential property must adopt an ordinance allowing the credit by June 30th of the year before the year in which the taxes are payable. This bill would allow counties to adopt an ordinance to allow the credit against taxes paid in 2006 at anytime before the 2006 tax bills are issued. The fiscal impact of this provision is fully dependant on local action.

Credit for Excessive Residential Property Tax - 2007 and Later: Under current law, counties may provide credits against the property tax liability of residential property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Residential property may include any combination of homesteads, apartment complexes, and other residential rental property at the county's discretion. No application is required to receive the credit. The county auditor must identify the eligible property and apply the credit.

Under this bill beginning with taxes paid in 2007, each county would be required to pay this credit, but the credit would apply only to homesteads.

Currently, counties are permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county are required to repay the loan and must impose a property tax levy to repay the debt. This levy is subject to the unit's maximum permissible levy limit and cannot be the basis for obtaining an excessive levy. If the property tax credits are granted, but not funded through a loan or other revenue source, the credits effectively reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit is a local revenue reduction in the year granted.

Under this bill beginning with taxes paid in 2007, counties would not be permitted to borrow money to fund the credit. The credits would reduce revenues for local civil taxing units and school corporations in affected counties.

An analysis of 2003 parcel-level tax data indicates that there are 38 counties with at least one homestead that could qualify for the credit. Of those, only 16 counties had more than five qualifying homesteads. There are two counties, Lake and St. Joseph, where the credit for homesteads would be of any real significance at 31,800 and 3,000 credits, respectively. Also of note are Delaware (273) and Vigo (419) Counties.

The total of all potential credits on homesteads in 2003 was \$18.7 M. The notable counties are Lake (\$16.9 M), St. Joseph (\$1.5 M), Delaware (\$106,000), and Vigo (\$127,000). Lake and St. Joseph Counties make up the bulk of the potential 2003 credit at \$18.4 M. *The actual 2005 Lake County credit for homesteads amounted to \$13.4 M.*

As a result of changing levies and tax rates, assessment adjustments, and more expensive new homes, the number and cost of the credits changes each year. In 2007, annual real property AV adjustments and the elimination of the remaining inventory AV are set to become effective. The number and cost of the credits in 2007 depend on (1) changes in the assessed value of real property and (2) changes in tax rates. If homestead AV grows faster than tax rates, then the cost could be reduced. If the homestead AV grows slower than tax rates, then the cost could increase.

(Revised) *Referendums on Debt Issues:* Under current law, a project is subject to the petition and remonstrance if the taxing unit expects to pay debt service or lease rentals and the total cost of the project is at least $2 M. This is known as a controlled project. Under this proposal, projects would be controlled if the taxing unit expects to pay debt service or lease rentals and the total cost of the project is at least $2 M or at least 2% of the unit's assessed value.

For controlled projects that will cost either more than 2% of assessed value or more than $50 M, either 500 or 5% of the owners of real property may sign a petition requesting a referendum on the lease rental or bond issue. The approval of the projects would be on the ballot for the next primary or general election. The taxing unit may ask for a special election to vote on the referendum.

If the project is defeated, then the same or substantially same project may not be submitted to voters within a year of the defeat. It is unknown how many projects would go through the referendum process and how many might be defeated.

Background: Primary and general elections are held in May and November in 3 of every 4 years. The Department of Local Government Finance approved about 106 school lease rentals or bond issues totaling about $2.2 B for CY 2004 and 2005. Of the 106 projects about 58 totaling about $2 B were over $10 M. School lease rentals or bond issues that have been subjected to the current petition and remonstrance process have been won by schools about 50% of the time. Many times the unsuccessful project was modified and then was successful.

(Revised) *Property Tax Amnesty:* This bill permits a county treasurer to establish a property tax amnesty program for delinquent real property taxes that were first due before January 1, 2007. The program may run for up to eight weeks between July 1, 2006, and December 31, 2006. Taxpayers may avoid penalties, collection fees, and costs if all delinquent taxes on the property are paid and if all amnesty conditions are met as set by the DLGF.

This provision could speed up payments of delinquent taxes and reduce the county's expense, in some cases, of trying to sell the property at tax sale. Revenues would most likely increase temporarily in 2006.

State Agencies Affected: Department of Child Services; DLGF; Department of State Revenue.

Local Agencies Affected: Counties, townships; Civil taxing units and school corporations in counties where the credit for excessive homestead taxes applies.

Information Sources: Local Government Database; DCS; County parcel-level real property assessment records; County auditor's abstracts; DLGF.

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